

Message Text

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FOR UNDER SECRETARY ROGERS FROM SORENSON

FOL REPEAT OECD PARIS 26809 ACTION SECSTATE SEP 14, 1976

UUOTE

LIMITED OFFICIAL USE SECTION 01 OF 04 OECD PARIS 26809

E.O. 11652: N/A
TAGS: EFIN, CIEC
SUBJECT: EC/US PROPOSAL ON DEBT

THE FOLLOWING IS THE TEXT OF THE PROPOSAL ON DEBT WHICH
WE HAVE NEGOTIATED WITH THE EC. ITS STATUS AND THE WAY
IN WHICH IT WILL BE USED ARE DISCUSSED IN SEPTTEL.

FEATURES WHICH SHOULD PROVIDE GUIDANCE
IN FUTURE OPERATIONS RELATING TO DEBT
PROBLEMS PURSUANT TO UNCTAD
RESOLUTION 94

BEGIN TEXT

IT IS RECOGNIZED AT THE OUTSET THAT INDEBTEDNESS
PER SE IS NOT NECESSARILY AN INDICATION OF FINANCIAL
OR ECONOMIC WEAKNESS ON THE PART OF THE DEBTOR COUNTRY,
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AND THAT EXTERNALLY-BORROWED FUNDS CAN BE PARTICULARLY
USEFUL TO DEVELOPING COUNTRIES AS A SUPPLEMENTAL
SOURCE OF FINANCING FOR ECONOMIC GROWTH.

2. IN CONSIDERING THIS QUESTION, IT IS USEFUL TO

DISTINGUISH BETWEEN TWO DIFFERENT TYPES OF SITUATIONS.

3. THE FIRST IS AN ACUTE DEBT CRISIS, INVOLVING DEFAULT OR IMMINENT DEFAULT ON DEBT SERVICING, AS WELL AS SERIOUS BALANCE-OF-PAYMENTS DIFFICULTIES IN WHICH DEBT SERVICING PAYMENTS PLAY A MAJOR ROLE. THIS SITUATION IS CHARACTERIZED BY THE FACT THAT IT CANNOT BE REMEDIED, IN THE SHORT-TERM, BY APPROPRIATE INTERNAL AND EXTERNAL ADJUSTMENT MEASURES WHICH THE DEBTOR COUNTRY CAN REALISTICALLY BE EXPECTED TO TAKE. CONSEQUENTLY, THERE IS A NEED FOR RECUR RECURSE TO DEBT REORGANIZATION AS A LAST RESORT.

4. THE SECOND TYPE OF SITUATION IS OF A LONGER-TERM NATURE, INVOLVING STRUCTURAL, FINANCIAL AND TRANSFER OF RESOURCES PROBLEMS WHICH CONSTRAIN THE BALANCE OF PAYMENTS AND HAMPER DEVELOPMENT; IN WHICH SITUATION THE COUNTRY CONCERNED IS NOT FACING DEFAULT, OR IMMINENT DEFAULT, ON EXTERNAL DEBT SERVICING. IN THIS SITUATION THERE WOULD BE MORE SCOPE FOR TIMELY AND APPROPRIATE INTERNAL AND EXTERNAL ADJUSTMENT MEASURES INCLUDING ALL THOSE AFFECTING THE QUANTITY, QUALITY AND USE OF EXTERNAL RESOURCE TRANSFERS.

5. THE STRUCTURE AND PROSPECTS OF ALL ITEMS OF THE BALANCE-OF-PAYMENTS HAVE TO BE TAKEN INTO ACCOUNT IN EXAMINING BOTH TYPES OF SITUATIONS.

6. IT IS DESIRABLE THAT INTERNATIONAL FINANCIAL INSTITUTIONS, DONOR COUNTRIES AND DEVELOPING COUNTRIES WOULD CONTINUE TO COOPERATE SO THAT FINANCIAL PROBLEMS CAN BE AVOIDED BY TIMELY AND EFFICIENT MANAGEMENT OF RESOURCES. TO THIS END, A) DONOR COUNTRIES WOULD ASSIST THE DEVELOPING COUNTRIES IN MANAGING THEIR EXTERNAL FINANCIAL PROBLEMS INTER ALIA BY ASSURING THAT THEIR CAPITAL MARKETS DO NOT DISCRIMINATE AGAINST DEVELOPING COUNTRIES OFFERING TECHNICAL ADVICE AND ASSISTANCE ON DEBT MANAGEMENT TECHNIQUES, INCLUDING ADVICE ON THE USE OF COMMERCIALY-BORROWED FUNDS, AND ASSURING THAT THE ASSISTANCE FLOWS ARE COMPATIBLE WITH THE RECIPIENTS DEVELOPMENT STATUS; B) FOR THEIR PART, DEVELOPING LIMITED OFFICIAL USE
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COUNTRIES WOULD PURSUE DOMESTIC AND FOREIGN MONETARY AND FINANCIAL POLICIES TO ENHANCE THE MOBILIZATION OF DOMESTIC RESOURCES AND THE EFFICIENT USE OF FOREIGN BORROWINGS AND AVOID EXTERNAL FINANCIAL OBLIGATIONS WHICH COULD PROVE DETRIMENTAL OVER THE MEDIUM AND LONGER-TERM TO THEIR FINANCIAL SITUATION, THEREBY IMPEDING GROWTH.

7. ACUTE DEBT CRISIS SITUATIONS: ACUTE DEBT CRISIS SITUATIONS WOULD BE TREATED, ON A CASE BY CASE BASIS, IN CREDITOR CLUBS, AT THE REQUEST OF THE DEBTOR CONCERNED. WITHIN THESE CLUBS THE PROBLEMS OF THE DEBTOR CONCERNED WOULD BE DISCUSSED IN A SPIRIT OF COOPERATION.

8. TO PROVIDE GUIDANCE FOR DEBT REORGANIZATION IN ACUTE DEBT CRISIS SITUATIONS, SOME OF THE FEATURES WHICH COULD CHARACTERIZE DEBT REORGANIZATION IN SUCH CIRCUMSTANCES ARE SET OUT BELOW:

- THE DEBTOR COUNTRY WOULD UNDERTAKE A COMPREHENSIVE ECONOMIC PROGRAM DESIGNED TO STRENGTHEN ITS UNDERLYING BALANCE OF PAYMENTS SITUATION. THIS PROGRAM WOULD, AS A GENERAL RULE, BE WORKED OUT WITH, AND MONITORED BY, THE IMF.

- DEBT REORGANIZATION AND THE PROGRAM OF ECONOMIC MEASURES WOULD TAKE INTO ACCOUNT THE DEVELOPMENT PROSPECTS OF THE DEBTOR COUNTRY, THEREBY ENABLING IT TO CONTINUE DEBT SERVICING PAYMENTS AND RESTORE ITS CREDIT WORTHINESS.

- THE MODALITIES OF DEBT REORGANIZATION WOULD BE DETERMINED FLEXIBLY, ON A CASE BY CASE BASIS, TAKING INTO ACCOUNT, ON THE ONE HAND, THE ECONOMIC SITUATION AND PROSPECTS OF THE DEBTOR COUNTRY, THE DEVELOPMENT PROSPECTS AND THE FACTORS CAUSING THE DEBT SERVICE DIFFICULTIES AND, ON THE OTHER HAND, THE LEGITIMATE INTERESTS OF THE CREDITORS.

- DEBT REORGANIZATION WOULD COVER OFFICIAL AND OFFICIALLY GUARANTEED DEBT WITH A MATURITY OF OVER ONE YEAR.

- CONSOLIDATION PERIODS WOULD NORMALLY BE KEPT RELATIVELY SHORT AND GENERALLY WOULD NOT EXTEND, AS TO FUTURE MATURITIES, BEYOND THE YEAR IN WHICH THE REORGANIZATION IS UNDERTAKEN.

- EQUALITY AND NON-DISCRIMINATION AMONG ALL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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CREDITORS, INCLUDING THOSE NOT PARTICIPATING IN THE CREDITOR CLUB, IS AN ESSENTIAL PRINCIPLE UNDERLYING THE OPERATION OF DEBT RENEGOTIATIONS. CREDITOR COUNTRIES WITH MINOR DEBTS DUE, WHICH FREQUENTLY INCLUDE DEVELOPING COUNTRIES, WOULD GENERALLY, HOWEVER, BE EXCLUDED FROM THE MULTILATERAL DEBT RENEGOTIATION.

- IN RESPECT OF ITS PRIVATE NON-OFFICIALLY GUARANTEED DEBT, THE DEBTOR COUNTRY WOULD BE EXPECTED TO NEGOTIATE DEBT REORGANIZATION WITH PRIVATE CREDITORS ON TERMS SIMILAR TO THOSE AGREED IN THE "CREDITOR CLUB" FOR ITS OFFICIAL AND OFFICIALLY GUARANTEED DEBT.

- DEBT REORGANIZATION ARRANGEMENTS WOULD PROVIDE FOR FLEXIBILITY TO REVIEW THE SITUATION AT THE END OF THE CONSOLIDATION PERIOD IN THE LIGHT OF UNFORESEEN CIRCUMSTANCES. THEY WOULD ALSO PROVIDE FOR ACCELERATED REPAYMENTS IN AN AGREED MANNER IF THE DEBTOR'S ECONOMIC SITUATION IMPROVES MORE RAPIDLY THAN ANTICIPATED.

9. REMEDIAL MEASURES TO DEAL WITH SITUATIONS OF A LONGER-TERM NATURE: IN THE CASE OF DEVELOPING

COUNTRIES DEPENDING LARGELY ON AID, FINANCIAL SITUATIONS OF A LONGER-TERM NATURE WHERE AN ADVERSE STRUCTURE OF THE BALANCE OF PAYMENTS CAN HAMPER DEVELOPMENT WOULD BE CONSIDERED ON AN INDIVIDUAL BASIS WITH A VIEW TO PROVIDING AID IN FORMS BETTER ADAPTED TO THE BALANCE OF PAYMENTS NEEDS OF THE RECIPIENT IN THE PERIOD OF DIFFICULTY FORESEEN. IN THE PRESENT WORLD ECONOMIC SITUATION, THERE ARE SOME CASES AMONG MOST AND LEAST-DEVELOPED COUNTRIES IN PARTICULAR WHERE DEVELOPMENT PROSPECTS HAVE BEEN SERIOUSLY REDUCED BY EXTERNAL FACTORS. SUCH PROBLEMS WHICH MAY LEAD TO DIFFICULTIES IN IMPLEMENTING THEIR DEBT SERVICE, CONSTITUTE GENERAL PROBLEMS OF TRANSFER OF RESOURCES.

10. SOME OF THE FEATURES DISCERNED FROM PAST OPERATIONS AS WELL AS IN THE LIGHT OF THE PRESENT SITUATION ARE INCORPORATED IN THE FOLLOWING PROCEDURE. IT IS AN EFFECTIVE WAY OF IDENTIFYING COUNTRIES IN THESE SITUATIONS AND ASSURING THAT APPROPRIATE ACTION TO ASSIST THEM IS TAKEN.

11. A DEVELOPING COUNTRY WHICH BELIEVES IT HAS SUCH A PROBLEM, OF WHICH DEBT IS AN ELEMENT, WOULD LIMITED OFFICIAL USE
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REQUEST AN EXAMINATION OF ITS SITUATION BY THE IBRD OR ANOTHER APPROPRIATE MULTILATERAL DEVELOPMENT FINANCE INSTITUTION MUTUALLY AGREED UPON. THESE REQUESTS WOULD GIVE REASONS AND CONTAIN ALL OTHER RELEVANT DATA.

12. THE RELEVANT INSTITUTION WOULD THEN EXAMINE THE REQUEST, PAYING PARTICULAR ATTENTION TO THE FOLLOWING ELEMENTS:

(A) THE RELATIVE POVERTY OF THE DEVELOPING COUNTRY CONCERNED;

(B) THE EXTENT TO WHICH THE COUNTRY CONCERNED DEPENDS ON ODA;

(C) DEVELOPMENTS IN AND PROSPECTS FOR EXPORT RECEIPTS AND FOR THE CAPACITY OF ENSURING IMPORTS ESSENTIAL TO THE DEVELOPMENT PROCESS, SUCH AS FERTILIZER AND OTHER AGRICULTURAL INPUTS, FOODSTUFFS, ENERGY, CAPITAL GOODS (AND SPARE PARTS) AND INDUSTRIAL RAW MATERIALS;

(D) THE COMPOSITION AND TREND OF DEBT SERVICE OBLIGATIONS AND ITS CAPACITY FOR ANY FURTHER BORROWING UPON NON-CONCESSIONAL TERMS;

(E) THE IMPACT WHICH THE SITUATION HAS ALREADY HAD UPON ESSENTIAL IMPORTS;

(F) WHETHER THE DEVELOPMENT PLAN FOR THE RELEVANT

PERIOD AND POLICIES THE COUNTRY IS PURSUING IN THAT FRAMEWORK ARE APPROPRIATE;

(G) THE EXTENT TO WHICH THE DEVELOPING COUNTRY HAS MADE USE OF IMF FACILITIES.

13. IF IN THE LIGHT OF THESE ELEMENTS ANY FURTHER STEPS SEEMED NECESSARY THE RELEVANT INSTITUTION WOULD THEN ANALYZE THE GENERAL ECONOMIC SITUATION OF THE COUNTRY INCORPORATING THE FUND'S ASSESSMENT OF ITS BALANCE OF PAYMENTS AND EXCHANGE RATE POLICIES AND PROSPECTS, INCLUDING DEBT SERVICING. THIS ANALYSIS WOULD ALSO MAKE AN APPRECIATION OF THE LEVEL OF ODA LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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WHICH IS AVAILABLE IN APPROPRIATE FORMS. THE ANALYSIS WOULD, FURTHERMORE, ESTABLISH THE EFFECTIVENESS OF THE COUNTRY'S USE OF BOTH DOMESTIC AND EXTERNAL RESOURCES FOR SAFEGUARDING ITS DEVELOPMENT PROCESS, SUCH AS MOBILIZATION OF DOMESTIC SAVINGS, PRIORITIES FOR NEW INVESTMENT, AND EXPORT PROMOTION POLICIES, AND ITS MEASURES FOR MONITORING EXTERNAL CREDITS AND OTHER MEASURES TO AVOID DEBT-SERVICING DIFFICULTIES.

14. THE RELEVANT INSTITUTION WOULD, IF THE ANALYSIS REVEALS THAT, IN THE CONTEXT OF DEVELOPMENT POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION ARE SERIOUSLY HAMPERED, CONTACT THE AID DONORS IN ORDER TO DISCUSS, BY MUTUAL AGREEMENT, THE NEEDS OF THE DEVELOPING COUNTRY. THIS COULD BE DONE WITHIN THE FRAMEWORK OF CONSORTIA AND CONSULTATIVE GROUPS. OTHERWISE, THE RELEVANT INSTITUTION COULD ORGANIZE AD HOC MEETINGS OF DONORS OR CONTACT DONORS INDIVIDUALLY IN CASES WHERE THIS IS APPROPRIATE. THE APPROPRIATE INTERNATIONAL INSTITUTION WOULD SUBMIT A REPORT TO THE DONOR COMMUNITY AND THE RECIPIENT COUNTRY ON MEASURES WHICH THEY MIGHT TAKE, TAKING INTO ACCOUNT THE USE OF IMF FACILITIES BY THE RECIPIENT COUNTRY, AND INVITE ALL CONCERNED TO EXAMINE THIS REPORT SYMPATHETICALLY.

15. IN THE EVENT THE DONOR COUNTRIES FIND THE DEVELOPING COUNTRY WHICH HAS MADE A REQUEST IS ENCOUNTERING LONG-TERM FINANCIAL DIFFICULTIES IMPINGING UNDULY ON ITS DEVELOPMENT PROGRESS, THEY WOULD, TO THE BEST OF THEIR ABILITIES, ENHANCE ASSISTANCE EFFORTS IN RESPONSE TO A DEVELOPING COUNTRY DEMONSTRATING ITS WILLINGNESS TO TAKE CORRECTIVE MEASURES ON ITS OWN BEHALF INsofar AS IT IS ABLE. SUCH AN EFFORT SHOULD GENERALLY BE DIRECTED TOWARDS INCREASING THE QUANTITY OF AID IN APPROPRIATE FORMS AND IMPROVING THE QUALITY SO THAT TERMS ARE APPROPRIATE TO THE ECONOMIC SITUATION AND THE DEVELOPMENT PROSPECTS OF THE RECIPIENT COUNTRY.

16. AMONG THE VARIOUS MEASURES WHICH MIGHT BE
TAKEN BY A DONOR COUNTRY FOR THIS PURPOSE, PROGRAM AID
AND ANY FLEXIBLE FORMS OF QUICKLY DISBURSABLE AID
WOULD BE CONSIDERED PREFERABLE TO ODA DEBT REORGANI-
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ZATION. HOWEVER, IN EXCEPTIONAL CASES, A DONOR
COUNTRY MIGHT CHOOSE TO USE ODA DEBT REORGANIZATION
ALONG THE FOLLOWING LINES (SELON LES ORIENTATIONS
SUIVANTES):

THE CONCESSIONAL ELEMENT OF REORGANIZED CREDITS
WOULD BE AS GREAT AS THE AVERAGE CONCESSIONAL ELEMENT
OF COMPARABLE NEW CREDITS BY THE DONORS CONCERNED.

17. AS TO MULTILATERAL DEVELOPMENT FINANCE
INSTITUTIONS, THEY WOULD CONSIDER COMMITTING NEW
RESOURCES IN AN APPROPRIATE FORM WITHIN THEIR LENDING
POLICIES AND PRACTICES.

18. THE DEBTOR WOULD TRY TO MAKE EQUIVALENT
ARRANGEMENTS WITH MAJOR COUNTRIES NOT TAKING PART IN
THE OPERATION SO THAT THE INCREASED BALANCE OF PAYMENTS
FLEXIBILITY PROVIDED WAS NOT INDIRECTLY USED TO REPAY
THESE OTHER COUNTRIES.
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